

# Exhibit I

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UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

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SECURITIES and EXCHANGE COMMISSION,

Plaintiff,

v.

20 Civ. 10832 (AT) (SN)

RIPPLE LABS, INC., et al.,

Defendants.

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New York, N.Y.  
March 19, 2021  
10:30 a.m.

Before:

HON. SARAH NETBURN,

U.S. Magistrate Judge

APPEARANCES

SECURITIES and EXCHANGE COMMISSION

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1 provide a little bit of context generally for the request and  
2 why it is so inappropriate.

3 XRP is a digital asset. It is just like Bitcoin or  
4 Ether. It has traded for years, years without incident.  
5 Millions of XRP holders, dozens of exchanges and market makers  
6 all operated under the well-founded belief that XRP was not an  
7 investment contract and, therefore, not a security. This is  
8 not some rinky-dink ICO, initial coin offering. This was,  
9 until the SEC sued, the third largest digital asset after  
10 Bitcoin and Ether, with major customers, major bank customers,  
11 several global financial institutions.

12 In 2018, right after Mr. Garlinghouse became CEO, the  
13 SEC officials stated publicly, neither Bitcoin nor Ether were  
14 securities. In fact, other government agencies regulating XRP  
15 regulate it as a currency, not as a security. In fact, they  
16 brought an enforcement action in 2013, right after  
17 Mr. Garlinghouse started, on the basis that XRP was a currency.

18 So following a lengthy investigation, your Honor, the  
19 SEC brought this case alleging for the first time publicly in  
20 December 2020 that XRP, in their view, is an investment  
21 contract and, therefore, a security.

22 This is the first time -- this was the first time the  
23 SEC brought a litigated case against individuals in this space  
24 that did not sound in fraud. So when you hear discussions of  
25 Telegram and Kik, please keep that in mind. These are Section

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1 issues that are before us today, but it is just helpful for me  
2 to understand.

3 MR. SOLOMON: Yes.

4 THE COURT: My understanding of XRP is that not only  
5 does it have a sort of currency value, but it also has a  
6 utility, and that utility distinguishes it, I think, from  
7 Bitcoin and Ether.

8 Is that correct?

9 MR. SOLOMON: So Bitcoin and Ether, I think, also have  
10 utilities. They also have use. You can't use Bitcoin, for  
11 example, necessarily everywhere to buy a cup of coffee or to  
12 buy groceries, but Bitcoin does have use cases that it has  
13 developed. So does Ether. They have smart contracts, for  
14 example, that can be done over the Ethereum block chain.

15 XRP also has developed a number of use cases, and  
16 these started very early in the process, which is why it is so  
17 baffling that the SEC has charged this long-running scheme from  
18 2013 to the present. Because XRP, for example, has a product  
19 called ODL, on demand liquidity, which is used to assist  
20 financial institutions in having seamless and less costly  
21 transactions in key corridors. For example, the U.S. to  
22 Mexico. And XRP as a digital asset is helpful because it means  
23 the banks don't have to have their own accounts on either end  
24 and can deploy that money more effectively elsewhere and XRP  
25 can be used as a bridge currency.

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1           Mr. Garlinghouse was brought to Ripple to help develop  
2 these additional use cases, and they have developed them. They  
3 have major customers. So it really is strange, your Honor,  
4 that we have a situation where the SEC has charged this  
5 long-running scheme. To present day, they are alleging even  
6 today XRP is a security. It is absurd, and they are not going  
7 to be able to prove it.

8           What is frustrating is, because they've lumped in  
9 individuals, they basically have tried to charge this as just  
10 one long, overarching scheme. Again, it is hard to follow the  
11 complaint, but think that is their theory. There was an  
12 issuance of XRP very early, and then the company,  
13 Mr. Garlinghouse and Mr. Larsen, even though they came at  
14 different times and had different roles, in selling their XRP,  
15 both for Ripple, and also selling their XRP themselves, were  
16 scheming to violate the SEC's registration requirements.  
17 Again, all of this happened openly, notoriously, right under  
18 their nose for years.

19           Market makers thought it was not a security.  
20 Exchanges thought it was not a security. Millions of retail  
21 holders thought it was not a security. And the SEC did nothing  
22 until December 2020. So that is -- sorry to be frustrated  
23 about it, but it really is one of these situations where you  
24 hate to be trite. It is pure regulatory overreach, especially  
25 dragging individuals into this.

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1           So forget everybody else who is selling XRP, these  
2 individual defendants violated Section 5 each and every time  
3 that they sold it?

4           MR. TENREIRO: Well, your Honor, so -- I'm sorry.  
5 What was the question about other individuals that were  
6 selling?

7           THE COURT: Presumably under this theory then, every  
8 individual in the world who is selling XRP would be committing  
9 a Section 5 violation based on what you just said.

10          MR. TENREIRO: That's not quite correct, your Honor.  
11 So the statute, the Securities Act of 1933 has sort of a  
12 registration provision under Section 5, and then an exemption  
13 provision under Section 4. And broadly speaking, the Section 4  
14 exemptions, I'm speaking very generally here, if these are  
15 transactions by people in the market, they are exempted by  
16 statute.

17          Section 5, though, focuses on and is relevant to this  
18 case, the issuer and the affiliates of the issuer. So it is  
19 only Mr. Larsen and Mr. Garlinghouse, the CEOs, or someone on  
20 the board. The affiliates of the issue are captured by the  
21 statute. Section 4 specifically exempts these transactions  
22 that the court put in the hypothetical of all these other  
23 people buying and selling XRP in the market. I don't think  
24 that would be the case, your Honor.

25          THE COURT: And you have specific claims -- I

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1 apologize for asking a question maybe I should know the answer  
2 to -- but you have claims against these two defendants that  
3 they have engaged in these violations.

4 I thought the claims were aiding and abetting of  
5 Ripple. But there is also claims that they individually  
6 engaged in violations?

7 MR. TENREIRO: Yes. We allege that they -- we allege  
8 that the individuals violated Section 5 with their own sales  
9 because they were affiliates of Ripple when they were making  
10 the sale. So their sales, every time they sold and failed to  
11 register the transaction, unless they point to an exemption,  
12 they violated Section 5 individually, irrespective of Ripple's  
13 violation.

14 So that is correct, we have Section 5 claims against  
15 them, and we have aiding and abetting claims also against them  
16 for Ripple's violation.

17 THE COURT: That clarification is helpful.

18 MR. TENREIRO: Thank you, your Honor.

19 Now, if I might move on to the other reasons why the  
20 financial information is relevant, and that does get to the  
21 Section 5 claim.

22 Mr. Solomon, at some point during his presentation,  
23 said that, you know, all sorts of individuals, including his  
24 clients, were operating under -- I think it was a good faith  
25 belief, or perhaps I'm paraphrasing, something along the lines